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UNCLAS WELLINGTON 000248

SIPDIS

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COMMERCE FOR 4530/ITA/MAC/AP/OSAO/ABENAISSA

SENSITIVE

E.O. 12356: N/A

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SUBJECT: NEW ZEALAND GOVERNMENT CHOOSES OIL-STOCKPILE OPTION
FAVORED BY INDUSTRY

REF: (A) WELLINGTON 10; (B) 04 WELLINGTON 291

(U) Sensitive but unclassified -- protect accordingly. Not for Internet distribution.

11. (SBU) The New Zealand government announced March 23 that it would hold a tender for additional oil storage in an effort to meet an international standard to maintain 90 days of reserves. The decision pleased oil companies, which had feared that the government would significantly raise their costs by ordering them to hold additional stocks. The Ambassador on February 25 wrote two government ministers expressing concern that alternative strategies for resolving the stockpile issue might ultimately reduce U.S. oil investment in New Zealand. Shortly before the March 23 announcement, Minister of Energy Mallard called the Ambassador to thank him for his letter. The Minister said he appreciated the Ambassador's drawing his attention to the issue and implied that the Ambassador would welcome the government's decision.

12. (U) In his statement announcing the decision, Mallard said, "I believe that tendering best meets the government's objectives of minimizing costs while avoiding any adverse effects on competition between the oil companies and ongoing investment in the sector." A levy on oil companies that pays for monitoring fuel security and quality will be increased to cover the tender's costs. The five oil companies in New Zealand -- BP New Zealand, Caltex New Zealand, Mobil Oil New Zealand, Shell New Zealand and the independent company Gull -- are likely to pass the increased levy on to consumers. That cost is expected to be NZ 0.7 cents to NZ 1 cent per liter, spread over all petroleum products. The additional oil stocks -- 500,000 tons of oil, or about 30 days of net oil imports -- are expected to cost about NZ \$500 million (US \$363 million). In addition, new storage capacity probably will need to be built.

13. (U) New Zealand has relied on voluntary industry stockpiles to meet its International Energy Agency (IEA) obligation to hold 90 days of oil reserves. However, rising oil consumption and decreasing domestic oil production had led to a stockpile shortfall that had not been detected until last year because of inaccurate accounting of reserves. New Zealand depends on imports for about 80 percent of its oil consumption. The government expects the country to be about 28 days under the 90-day obligation in 2005.

14. (SBU) A government-commissioned study, released December 14, outlined options and costs for boosting New Zealand's oil reserves (ref A). The oil companies had worried that the government would force them to pay for additional oil stocks and storage capacity. Peter Thornbury, public affairs manager for Mobil Oil New Zealand, said such a plan would have affected each company differently -- depending on the company's obligations and investment requirements -- and thereby distorted the market. While the companies initially wanted the government to pay for the additional reserves, the industry ultimately pushed for the tendering option because the added levy would be relatively easy to pass on to consumers and would affect the five companies equally. John Kerr, public affairs manager for Caltex New Zealand, said the government's decision also opened the door for more consultations with industry on a number of remaining issues.

15. (U) The government may discuss with other IEA countries in the region -- Australia, Canada, Japan, Korea and the United States -- the possibility of holding some of New Zealand's oil stocks in those countries, as allowed by the IEA. An IEA review team is scheduled to visit New Zealand in late April. Post has requested a briefing from the team on its views of New Zealand's energy policies.

16. (SBU) Comment: The government's apparent shift in strategy may be due in part to a change in energy ministers. The previous minister, Pete Hodgson, had said that the Cabinet had decided to impose the expense of expanded oil stockpiles on the oil companies. He was replaced in an unrelated Cabinet reshuffle December 20 by Minister Mallard,

who may have been more open to considering industry's concerns. Newspaper coverage of the announcement led with the cost to consumers, then detailed the government's decision.

SWINDELLS